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BEFORE THE ARIZONA CORPORATION COMMISSION 53

Arizona Corporation Commission

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AUG 06 1999

Commissioner

WILLIAM A. MUNDELL

Commissioner

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IN THE MATTER OF THE
APPLICATION OF TUCSON ELECTRIC
POWER COMPANY FOR APPROVAL
OF ITS PLAN FOR STRANDED COST
RECOVERY AND FOR RELATED
APPROVALS, AUTHORIZATIONS AND
WAIVERS

DOCKET NO. E-01933A-98-0471

IN THE MATTER OF THE FILING OF
TUCSON ELECTRIC POWER
COMPANY OF UNBUNDLED TARIFFS
PURSUANT TO A.A.C. R14-2-1602 ET.
SEQ.

DOCKET NO. E-01933A-97-0772

IN THE MATTER OF THE
COMPETITION IN THE PROVISION OF
ELECTRIC SERVICES THROUGHOUT
THE STATE OF ARIZONA

DOCKET NO. RE-00000C-94-0165

**NOTICE OF FILING REBUTTAL
TESTIMONY OF KEVIN HIGGINS AND
FILING OF CYPRUS CLIMAX METALS,
ASARCO INCORPORATED AND
ARIZONANS FOR ELECTRIC CHOICE
AND COMPETITION'S WITNESS LIST AND
SUMMARY OF SUBJECT AREAS TO BE
ADDRESSED AT HEARING**

Pursuant to the Commission's Procedural Order dated June 23, 1999, counsel for Cyprus Climax Metals Company, ASARCO Incorporated and Arizonans for Electric Choice and Competition, by the herein undersigned, hereby provides notice of the filing of the Rebuttal Testimony of Kevin C. Higgins, the Witness List and the Summary of Subject Areas to Be Addressed at Hearing in the above-captioned dockets.

1 WITNESSES

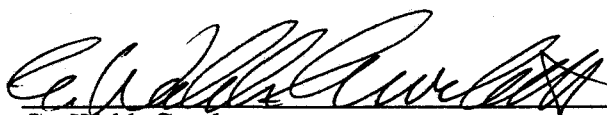
2 Kevin C. Higgins, Energy Strategies, Inc.

3 SUMMARY OF SUBJECT AREAS

- 4 1. Implementation of Retail Access
5 2. Stranded Cost Recovery
6 3. Unbundled Rates
7 4. Rate Reductions
8 5. Code of Conduct
9 6. Transmission Access

10 DATED this 6th day of August, 1999.

11 FENNEMORE CRAIG, P.C.

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13 By 
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16 Suite 2600
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21 Choice and Competition

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24 this 6th day of August, 1999, to:

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 CARL J. KUNASEK

3 Chairman

4 JIM IRVIN

5 Commissioner

6 WILLIAM A. MUNDELL

7 Commissioner

8 IN THE MATTER OF THE
9 APPLICATION OF TUCSON ELECTRIC
10 POWER COMPANY FOR APPROVAL
11 OF ITS PLAN FOR STRANDED COST
12 RECOVERY AND FOR RELATED
13 APPROVALS, AUTHORIZATIONS AND
14 WAIVERS

DOCKET NO. E-01933A-98-0471

15 IN THE MATTER OF THE FILING OF
16 TUCSON ELECTRIC POWER
17 COMPANY OF UNBUNDLED TARIFFS
18 PURSUANT TO A.A.C. R14-2-1602 ET.
19 SEQ.

DOCKET NO. E-01933A-97-0772

20 IN THE MATTER OF THE
21 COMPETITION IN THE PROVISION OF
22 ELECTRIC SERVICES THROUGHOUT
23 THE STATE OF ARIZONA

DOCKET NO. RE-00000C-94-0165

24 **REBUTTAL TESTIMONY OF KEVIN C. HIGGINS**

25 August 6, 1999

26 Submitted by
 Fennemore Craig, P.C.
 C. Webb Crockett
 Jay Shapiro
 Attorneys for Cyprus Climax Metals, ASARCO
 Incorporated and Arizonans for Electric Choice
 and Competition

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. Kevin C. Higgins, 39 Market Street, Suite 200, Salt Lake City, Utah, 84101.

3 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

4 A. I am employed by Energy Strategies, Inc. (ESI) as a senior associate. ESI is a
5 private consulting firm specializing in the economic and policy analysis applicable to
6 energy production, transportation, and consumption.

7 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

8 A. My testimony is being sponsored by Arizonans for Electric Choice and
9 Competition¹.

10 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS
11 PROCEEDING?

12 A. Yes. I have filed direct testimony supporting the Settlement Agreement.

13 Q. WHAT ISSUES WILL YOU BE ADDRESSING IN YOUR REBUTTAL
14 TESTIMONY?

15 A. I will address the following areas in response to the direct testimony of other
16 parties: (1) clarification of certain issues raised by Staff, (2) rebuttal of certain errors or
17 misinterpretations in the testimony of Mr. Bloom (Commonwealth), and (3) rebuttal of
18 testimony of Mr. Neidlinger (Department of Defense) regarding treatment of contract
19 customers.
20
21

22 ¹ Arizonans for Electric Choice and Competition is a coalition of energy consumers in favor of
23 competition and includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel,
24 Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, Homebuilders of Central
25 Arizona, Arizona Mining Industry Gets Our Support, Arizona Food Marketing Alliance, Arizona
26 Association of Industries, Arizona Multihousing Association, Arizona Rock Products Association,
Arizona Restaurant Association, Arizona Retailers Association, Boeing, Arizona School Board
Association, National Federation of Independent Business, Arizona Hospital Association, Lockheed
Martin, Abbot Labs, and Raytheon.

1 **Clarification of issues raised by Staff**

2 **Q. WHAT ISSUES RAISED BY STAFF DO YOU WISH TO CLARIFY?**

3 A. The first issue pertains to how far in advance the MGC is set. Staff witness Lee
4 Smith states that neither the Settlement Agreement nor TEP'S proposed tariff specifies
5 how far in advance TEP will calculate the MGC, and she suggests that such specification
6 be made in the settlement.² To clarify, the Settlement Agreement does make this
7 specification in Section 2(c), which states that TEP will set the Floating CTC 45 days
8 prior to each calendar quarter, an action that requires determination of the MGC. This
9 specification also occurs in the unbundled tariff in the section entitled "Market
10 Generation Credit (MGC) and Stranded Cost Recovery."

11 **Q. WHAT OTHER ISSUES RAISED BY STAFF DO YOU WISH TO CLARIFY?**

12 A. Ms. Smith discusses the merit of calculating an MGC that distinguishes between
13 on-peak and off-peak periods, as opposed to an MGC that is a single value for all periods.
14 She notes that Mr. Pignatelli (TEP) testified that a distinction between on and off peak
15 periods would be made in determining the MGC, but she finds his statement inconsistent
16 with the tariff.³ To clarify, Mr. Pignatelli's representation regarding the calculation of an
17 on-peak and off-peak MGC follows Section 2(d) of the Settlement Agreement, which
18 states that "The monthly MGC amount shall be calculated in advance and stated as both
19 an on-peak value and an off-peak value." Identical language is also included in the
20 unbundled tariff in the second paragraph of the section entitled "Market Generation
21 Credit (MGC) and Stranded Cost Recovery."

22 **Q. MS. SMITH SUGGESTS THAT ALTERNATIVE MEASURES OF THE MGC BE**
23 **INCORPORATED IN THE SETTLEMENT TO BE USED IF THE NYMEX**

25 ² Direct testimony of Lee Smith, p. 6, lines 13-16.

26 ³ Id., p. 7, line 26 to p. 8, line 12.

1 **FUTURES MARKET DOES NOT SURVIVE IN ITS CURRENT FORM. DO YOU**
2 **WISH TO RESPOND?**

3 A. I agree with Ms. Smith's suggestion so long as it is clear that any alternative is
4 strictly a "back-up" to the price measurement used in the Settlement Agreement. In
5 addition, I agree that the MGC could be calculated using a three-day average, instead of a
6 single day's pricing, as she also suggests.⁴

7 Q. **HAVE YOU REVIEWED THE RECOMMENDATIONS BY MR. WILLIAMSON**
8 **CONCERNING THE WAIVERS REQUESTED IN THE SETTLEMENT**
9 **AGREEMENT?**⁵

10 A. Yes, I have. AECC supports the adoption of Staff's recommendations but only if
11 these recommendations are also acceptable to the other parties to the Settlement
12 Agreement.

13 **Rebuttal of Mr. Bloom (Commonwealth)**

14 Q. **WHAT AREAS OF MR. BLOOM'S TESTIMONY DO YOU REBUT?**

15 A. I will provide rebuttal testimony pertaining to: (1) the Floating CTC, (2)
16 representations made by Mr. Bloom regarding previous testimony of Dr. Rosen (RUCO),
17 (3) Mr. Bloom's alternative MGC, (4) must-run generation, and (5) the AISA.

18 Q. **IN HIS DIRECT TESTIMONY, MR. BLOOM ASSERTS THAT THE**
19 **QUARTERLY DETERMINATION OF THE MGC CONFLICTS WITH HAVING**
20 **A FLOATING CTC THAT CHANGES EACH MONTH, CAUSING**
21 **UNCERTAINTY FOR CUSTOMERS.**⁶ **DO YOU WISH TO COMMENT ON**
22 **THIS STATEMENT?**

23
24
25 ⁴ Id., p. 8, lines 14-28.

26 ⁵ Direct testimony of Ray T. Williamson (Staff), p. 3, line 20 to p. 5, line 23.

⁶ Direct testimony of Frederick M. Bloom (Commonwealth), p. 9, lines 20-25.

1 A. The conflict asserted by Mr. Bloom does not exist. Mr. Bloom mistakenly
2 concludes that a quarterly determination of the MGC implies that a single value is
3 determined for the entire quarter. However, the quarterly determination of the MGC will
4 specify a different MGC for each month of the upcoming quarter, based on the NYMEX
5 futures price for each upcoming month. Thus, there is no inconsistency between a
6 quarterly determination of the MGC and a unique (on and off-peak) MGC for each
7 individual month.

8 **Q. MR. BLOOM ASSERTS THAT DR. ROSEN (RUCO) HAD PREVIOUSLY**
9 **TESTIFIED THAT APPROPRIATE ADDERS FOR ARIZONA RANGED FROM**
10 **82 TO 118 MILLS PER KWH FOR SMALL CUSTOMERS AND 64 TO 85 MILLS**
11 **PER KWH FOR LARGE CUSTOMERS. MR. BLOOM THEN CONTRASTS**
12 **THESE NUMBERS WITH THE ADDERS IN THE SETTLEMENT**
13 **AGREEMENT. DO YOU WISH TO COMMENT ON THIS ASSERTION?**

14 A. Mr. Bloom's assertions regarding Dr. Rosen's testimony are off by a factor of ten.
15 Dr. Rosen had recommended adders of 8.2 to 11.8 mills per kwh for small customers and
16 6.4 to 8.5 mills per kwh for large customers. While the adders recommended in Dr.
17 Rosen's previous testimony are still higher than those in the Settlement Agreement, the
18 disparity is not nearly as great as asserted by Mr. Bloom.

19 **Q. MR. BLOOM SUGGESTS THE USE OF AN ALTERNATIVE MGC EQUAL TO**
20 **TEP'S STANDARD OFFER COST OF GENERATION. DO YOU AGREE WITH**
21 **THIS SUGGESTION?**

22 A. No. Mr. Bloom proposes to use a value for the MGC that is equal to the Standard
23 Offer cost of generation – inclusive of all of TEP's stranded cost.⁷ The upshot of using
24 Mr. Bloom's proposed MGC would be to deny TEP any stranded cost recovery. While
25

26 ⁷ Id., p. 14, lines 6-23. Also p. 27, lines 2-6.

1 zero stranded cost recovery is certainly appealing from a customer perspective, it is
2 inconsistent with the Commission's Stranded Cost Order and proposed Rules, and
3 certainly not achievable in a Settlement Agreement.

4 **Q. MR. BLOOM CLAIMS THAT BILLING SCHEDULING COORDINATORS FOR**
5 **VARIABLE MUST-RUN COSTS IS A BARRIER TO COMPETITION.⁸ IS THIS**
6 **CORRECT?**

7 A. Mr. Bloom is incorrect. Contrary to Mr. Bloom's assertions, the Must-Run
8 provisions of the Settlement Agreement *protect* the interests of the ESP. The Settlement
9 Agreement commits TEP to comply with the AISA Protocols. The draft AISA Must-Run
10 Generation Protocol is designed to promote competition by allowing scheduling
11 coordinators to make choices about how they wish to meet their load responsibilities
12 within the load pocket, while at the same time having access to local generation offered
13 under a regulated pricing mechanism.

14 According to the draft protocol, market participants will be told in advance how
15 much local generation will be necessary to meet customer needs in Tucson. Through
16 their scheduling coordinators, ESPs will be able to meet their local generation
17 requirement by: (1) acquiring additional transmission into Tucson from another market
18 participant, (2) contracting with a local generation provider (such as a merchant plant),
19 (3) reducing demand through load reduction programs, and (4) purchasing "must-offer
20 energy" from TEP. "Must-offer energy" refers to energy that TEP is obligated under the
21 AISA protocol to make available to scheduling coordinators at TEP's cost-of-service.
22 The must-offer obligation arises due to TEP's market power during must-run conditions.

23 Mr. Bloom seems to feel the ESP is being penalized because the scheduling
24 coordinator would have to pay for energy acquired under the must-offer provisions of the
25

26 ⁸ Id., p. 24, lines 14-19.

1 AISA Protocol. However, the acquisition of such energy is equivalent to the purchase of
2 a resource to meet the ESP's load responsibilities. It displaces the ESP's need for other
3 (imported) energy and is available at a cost-based price. Surely, Mr. Bloom does not
4 realistically expect Must-Run resources to be made available at no cost to ESPs.

5 **Q. MR. BLOOM STATES THAT CONSUMERS AND NEW ENTRANTS HAVE**
6 **VIRTUALLY NO MEANINGFUL VOICE IN THE AISA PROCESS.⁹ DO YOU**
7 **WISH TO COMMENT ON THIS ASSERTION?**

8 **A.** Yes. Mr. Bloom is incorrect. The AISA is governed by a stakeholder board in
9 which utilities are a minority. While neither Mr. Bloom nor Commonwealth appears to
10 have made any effort to participate in the AISA, others have. The Board includes
11 members who are affiliated with Enron, PG&E Energy Services, RUCO, Dynegy,
12 Electrical Districts, and AECC. I serve on the Board representing retail customer
13 interests and have been very active in the AISA Operating Committee, which has
14 developed the draft protocols. Hundreds of man-hours have gone into the negotiation and
15 development of these protocols, and participation from new entrants has been welcomed.
16 Apparently, Commonwealth has elected not to get involved in this work effort. Instead,
17 Commonwealth has chosen to disparage the organization as being controlled by the
18 Arizona utilities.

19 **Rebuttal of Mr. Neidlinger regarding contract customers**

20 **Q. MR. NEIDLINGER ASSERTS THAT CONTRACT CUSTOMERS SHOULD PAY**
21 **A HIGHER CTC THAN IS INCORPORATED INTO THE SETTLEMENT**
22 **AGREEMENT.¹⁰ DO YOU AGREE WITH THIS ASSERTION?**

25 ⁹ Id., p. 24, lines 20-26.

26 ¹⁰ Direct testimony of Dan L. Neidlinger (Department of Defense), pp. 5-6.

1 A. No. I strongly disagree with Mr. Neidlinger. The issue arises because Mr.
2 Neidlinger attempts to eliminate the Floating CTC and convert the forecasted stranded
3 cost associated with this item into a fixed charge (which is then added to a modified
4 version of the Fixed CTC from Settlement Agreement, which has been increased for
5 most customers by Mr. Neidlinger). The resulting CTC calculated by Mr. Neidlinger is
6 then allocated to customers without regard for the proportionality provision in the
7 proposed Rule¹¹ and without regard for the requirement in the Commission's Stranded
8 Cost Order that states that "No customer or customer class shall receive a rate increase as
9 a result of stranded cost recovery by an Affected Utility..."¹² A consequence of Mr.
10 Neidlinger's proposed CTC allocation is that contract customers would be assigned
11 stranded cost charges in excess of what is included in their current contract rates, in
12 violation of the aforementioned provisions.

13 On the other hand, the Settlement Agreement conforms with the Commission's
14 proportionality and hold harmless provisions by calculating each customer's total CTC by
15 using the customer's existing bundled rate as a basis. As a result, no customer is charged
16 more stranded cost than is currently paid in the customer's regulated rates.

17 A further problem with Mr. Neidlinger's proposal is that it ignores the fact that
18 the parties to the Settlement Agreement agreed to a Floating CTC as a hedge against price
19 risk. Because the Floating CTC moves inversely with market prices, TEP is hedged
20 against falling market prices and customers are hedged against rising prices. Mr.
21 Neidlinger's proposal removes this price hedge and fundamentally changes the nature of
22

23 ¹¹ The Rules provide that "Stranded Cost shall be recovered from customer classes in a manner consistent
24 with the specific company's current rate treatment of the stranded asset, in order to effect a recovery of
25 Stranded Cost that is in substantially the same proportion as the recovery of similar costs from customers
26 or customer classes under current rates." Proposed Electric Competition Rules, R14-2-1607.G

¹² Arizona Corporation Commission Decision No. 61677 (April 27, 1999) Docket No. RE-00000C-94-0165.

1 the settlement agreement. His proposed changes are not acceptable to AECC and should
2 be rejected by the Commission.

3 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

4 **A. Yes, it does.**

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